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FISCAL IMPACT STATEMENT

LS 6658

BILL NUMBER: SB 217

NOTE PREPARED: Jan 2, 2003

BILL AMENDED:

SUBJECT: Mail Order and Internet Pharmacy Designation.

FIRST AUTHOR: Sen. Gard

FIRST SPONSOR:

BILL STATUS: As Introduced

**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill allows the designation of a mail order or an Internet-based pharmacy to provide prescription drugs under Medicaid or other health plans. The bill prohibits a denial of coverage for a covered prescription drug solely because the prescription drug was obtained from a pharmacy other than a designated mail order or Internet-based pharmacy.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Summary:* At this time this provision has no immediate fiscal impact to the state through the state's provision of health insurance benefits to state employees or through the Medicaid Program. At the beginning of 2000, six state employee health plans allowed insureds to obtain prescription drugs from mail order or internet pharmacies. However, none of the plans *required* purchases from mail order or internet vendors.

This provision could have a future fiscal impact on the state if certain circumstances occurred. This bill essentially provides for an "any willing provider" condition within an existing network and would prohibit an insurer from requiring an insured individual to obtain prescription drugs from an internet or mail order pharmacy. As with any other "any willing provider" requirements, there could be an impact to a health plan if and to the extent that mail order and internet pharmacies can offer a lower cost alternative to health plans in exchange for volume assurances. If this provision precludes a health plan from obtaining the lowest possible price for pharmaceuticals (through a contractual arrangement with a mail order or internet pharmacy in exchange for the assurance of a higher volume of sales), the health plan may experience higher drug costs than would otherwise have been experienced. Consequently, the higher health plan costs could be factored into insurance premiums and enrollment fees. Ultimately this could affect health plan costs to the state and

or to state employees. The extent of the effect on rates and associated health care costs is unknown.

The state may choose to absorb any additional costs of these provisions or to pass these costs on to employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered

This issue would have no fiscal impact upon the Medicaid fee-for-service prescription drug program since Medicaid operates under "any willing provider" provisions. Participating pharmacies are required to be enrolled as Medicaid providers and subject to all the rules and operating procedures of the program. The pharmacy provider would also be responsible for collecting any copayment due from the client.

The Medicaid managed care organizations (MCO's) present a slightly different picture since they may have drug formularies and contracted pharmacy providers and require clients to make use of the contracted sources for prescription drugs. Currently none of the MCO's use a mail-order or internet pharmacy system. There is no copayment involved under the MCO option. Ultimately, the MCO's may incur higher costs if they cannot limit their clients to specific network pharmacy vendors or drugs (as in a formulary) in exchange for negotiated price breaks. The provisions of this bill may ultimately result in increased capitation rates to Medicaid above what they might otherwise have been.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*: It is unknown if local government employers would absorb any additional costs resulting from this bill or pass the costs on to employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered. Cost sharing of health benefit premiums varies widely by locality.

Explanation of Local Revenues:

State Agencies Affected: Potentially all state agencies depending upon administrative action.

Local Agencies Affected: Potentially any local government or school corporation that purchases accident and sickness insurance for employees.

Information Sources: Amy Kruzan, Legislative Liaison for the Family and Social Services Administration, (317)- 232-1149, and Melanie Bella, Assistant Secretary, Office of Medicaid Policy and Planning.

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